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UNCLAS SECTION 01 OF 04 CANBERRA 001278

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WHITE HOUSE FOR CEO VAN DYKE, SCHULTZ  
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STATE FOR OES/EGC TALLY, EEB KOPP, G ROCHBERG

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TAGS: SENV KGHG ECON AS  
SUBJECT: CLIMATE CHANGE: PM TARGETS 5% EMISSIONS CUT BY 2020

REF: A. CANBERRA 1077  
B. CANBERRA 1043  
C. CANBERRA 902  
D. CANBERRA 819  
E. CANBERRA 775  
F. CANBERRA 719

SUMMARY

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¶1. (SBU) Prime Minister Rudd released the Government's White Paper on the Carbon Pollution Reduction Scheme (CPRS) on December 15, which commits Australia to reducing emissions by 5% from 2000 levels (4% from 1990 levels) by 2020. The plan holds out the option of increasing the target to 15% of 2000 emissions in the event of a substantial international agreement. The White Paper lays out the details of the CPRS, including government support for coal-fired electricity generators, compensation to households for increased energy costs, and varying levels of compensation for emissions intensive and trade exposed industries. Though panned by climate activists as a "sell out to polluters," the GOA argues that the 5% cut is equal to a 27% reduction on a per capita basis, more or less equal to the per capita emissions reductions envisioned by the EU. The plan addresses many of the concerns raised by business groups about the Government's discussion paper (i.e. "green paper") in July (Refs a-f). It reflects a carefully crafted attempt to carry out the PM's election commitment to reduce emissions while limiting the impact on voters and business by adopting the lowest credible target. End Summary.

Carbon Pollution Reduction Scheme

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¶2. (U) Prime Minister Kevin Rudd announced Australia's Carbon Pollution Reduction Scheme (CPRS) in a televised address December 15. Australia will seek to cut emissions by 5% from 2000 levels by the year 2020, equivalent to a 27% per capita reduction. Further, the GOA agreed it would increase this

target to 15% if international agreement is reached that establishes strong international carbon price signals in ¶2012. Rudd said the GOA remains committed to meeting its long-term target of a 60% reduction in greenhouse emissions from 2000 levels by 2050. All revenue from auctioning permits is supposed to be spent to compensate consumers, selected industries and on research and development. The plan commits to provide around A\$6 billion a year in compensation to consumers, with low income households receiving compensation equal or greater than the average increase in living costs. Compensation for middle income families will be slightly below the additional living costs caused by the plan. The CPRS is slated to begin on 1 July ¶2010. It will cover around 75% of Australia's emissions and involve mandatory obligations for around 1000 entities (out of 7.6 million registered businesses). CPRS will broadly cover emissions from stationary energy, transport, fugitive, industrial processes, waste and forestry sectors but will not cover emissions from agriculture.

#### Cap and Trade

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¶13. (U) The CPRS implements a cap and trade emission trading scheme, with an initial price for the first five years capped at A\$40 per ton (Australian Treasury Department modeling suggests that the initial price in 2010-2011 will be A\$23 per ton). The price cap will rise by 5% per year after the initial five-year freeze. The price of carbon will be determined by the balance of supply and demand for permits,

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within the price cap. The plan envisions monthly auctions of permits, with a secondary market for trading.

¶14. (U) The GOA says pricing volatility and upside price risk will be reduced by widespread coverage, the ability to save and borrow permits, a ban on exports of permits in the CPRS's initial years, unlimited access to international abatement through the Kyoto Protocol, and the transitional five-year cap on the price of permits. The Australian Securities and Investments Commission (ASIC) will be authorized to investigate and prosecute market manipulation in the carbon market. The permit market will be subject to the same effective safeguards as the Commonwealth bond market. Rules will be in place to prevent the manipulation of auctions. The GOA plans to create a single regulator to administer the CPRS, the National Greenhouse and Energy Reporting System, and the Renewable Energy. The independent regulator's mandate will include enforcing compliance, maintaining the registry of domestic and international units, auctioning permits, and administering the permit allocation rules set out in legislation and regulations.

¶15. (U) Australia's emissions have been growing at about 1% a year since 1995 but it is likely to meet its Kyoto target for 2008-2012 of 108% of 1990 levels because of significant reductions in emissions due to Kyoto's treatment of land use and land clearing. Emissions would hit 120% of 1990 levels by 2020 without additional policy measures. The CPRS is the main pillar of four policies designed to cut emissions by 5% over 2000 levels in the year 2020. The other measures are an expanded Renewable Energy Target for investment in renewable energy, carbon capture and storage, and action on energy efficiency.

#### Overall Cut Big on Per Capita Basis

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¶16. (U) The White Paper accepted the Garnaut Review finding that stabilizing of greenhouse gases at 450 parts per million or lower is in Australia's interests. The GOA argues that Australia's strong population growth, large share of energy and emissions-intensive industries, and heavy reliance on fossil fuels for energy mean that Australia faces a

relatively greater task to move towards a low-emission future than many other developed countries. Australia's population is projected to grow by around 45% over 1990-2020, so that Australia's target range translates to a 34-41% reduction in the per capita emissions of every Australian over this period. Rudd said Australia's medium term target range is therefore comparable to that of the EU.

Country	2020 Target	2020 Per Capita Cut
Australia	5% Below 2000 (4% below 1990) level)	27% from 2000 level (34% from 1990)
EU	20-30% below 1990	24%-34% from 1990 level
UK	26%-32% below 1990 level	33%-39% from 1990

(Source: Australian Department of Climate Change Powerpoint)

#### Compensation Mechanisms

¶ 17. (U) The GOA estimates inflation will rise a one-time 1.1% when the CPRS is introduced, and growth will slow by 0.1% a

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year to 2050. The GOA will use all revenue it receives from the sale of permits to help households and businesses adjust. The CPRS will increase prices of electricity, gas, petrol and other goods and services. To compensate, 89% of low-income households will receive assistance of 120% of their CPRS-induced cost of living increase. Almost all middle-income households will receive some cash assistance and 60% will have their cost of living increase fully compensated. Motorists will be protected from higher fuel costs from the scheme by "cent for cent" reductions in fuel tax for the first three years -- a promise made in July when complaints about fuel prices was, like fuel prices themselves, at all-time highs.

#### Emissions-Intensive Trade Exposed Industries

¶ 18. (U) The GOA will provide assistance to emissions-intensive trade-exposed industries (EITE) to reduce the risk that industries will relocate offshore due to competition from countries without carbon constraints and to provide general transitional assistance towards a carbon constrained economy. The White Paper extends the lower level of assistance to energy-intensive, trade-exposed (EITE) activities that emit at least 1000 tons CO<sub>2</sub>-equivalent per million dollars of revenue.

¶ 19. (U) At the start, EITE industries will get around 25% of total carbon pollution permits. Notably, new entrant or brownfield expansions are entitled to the same rate of EITE assistance as existing entities. Up to 40 activities in the economy may be eligible for EITE assistance. Aluminum smelting, cement clinker production, lime production, silicon production, and integrated iron and steel manufacturing are likely to be eligible for 90% assistance. Alumina refining, petroleum refining and LNG production are likely to receive 60% assistance.

#### Assistance for Coal-Fired Electricity

¶ 10. (U) To ensure sufficient electricity supply, the GOA will give one-time assistance to emissions-intensive coal-fired electricity generators, targeted at the most emissions-intensive generators which least able to pass on the full costs of the permits they must buy. CPRS will

provide a fixed allocation of permits, giving around A\$3.9 billion to the most emissions-intensive coal-fired generators based on an initial carbon price of A\$25 per ton over the first five years of the CPRS. Assistance will be based on the energy output of power stations between July 2004 and July 2007, and the extent to which generator's emissions intensity exceeds the "threshold" level of emissions intensity of 0.86 tons of CO<sub>2</sub> equivalent per megawatt hour generated, which is the average emissions intensity of all fossil-fuel based electricity.

¶11. (U) The GOA will also establish a A\$2.15 billion Climate Change Action Fund over five years to smooth the transition for businesses, community sector organizations, workers, regions and communities to an operating environment that includes a price on carbon. An additional A\$300 million will be provided as part of the coal adjustment scheme.

Initial Response

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¶12. (U) The Rudd government's goal of cutting emissions by only 5% from 2000 levels has angered the Greens and environmental groups, who called for a much stronger cut, but

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is closer to the level sought by business and industry groups. Green Senator Christine Milne said the emissions reduction targets are extremely weak: "Five percent is a global embarrassment." The World Wildlife Fund said the 5% target is deeply disappointing. However, the Chamber of Commerce and Industry suggested that reducing emissions by 5% will be difficult for the business community when it is also dealing with a financial crisis. The Opposition has not yet responded directly about the CPRS but has commissioned an independent inquiry due in February which will influence the Coalition's response.

Comment

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¶13. (SBU) The White Paper is a carefully crafted attempt to carry out the PM's election commitment to reduce emissions while limiting the impact on voters and business by adopting the lowest credible target. The plan addresses many of the concerns raised by business groups following the discussion paper ("green paper") released in July. Legislation to enact the CPRS will be introduced in mid-2009 and will begin on July 1, 2010. Senate passage will require support from either the Coalition or the Greens and independents -- with the former looking much more likely because of the comparatively conservative target adopted by the White Paper.

Business groups have already pressured the Opposition to support the CPRS because of concern that the Greens will otherwise force a much higher target on the Rudd government as the price for Senate passage. Greens Senator Milne confirmed this interpretation to Econoff. Another reason for support is that Opposition leader Turnbull previously supported ratification of the Kyoto agreement when Environment Minister in the Howard government and is likely to eventually support the CPRS -- possibly after a Senate inquiry.

MCCALLUM